ATLANTIC PROVINCES ECONOMIC COUNCIL

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Report Card

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Atlantic Consumers Ride Out the Recession

Atlantic Canadian consumers have weathered the global recession much better than their Canadian counterparts. Retail sales in Atlantic Canada in the second quarter (April-June) of 2009 were down only 0.3% from a year earlier, compared with a drop of 5.2% nationally. However, these declines partly reflect a steep drop in gasoline prices. Excluding purchases from gasoline stations, overall retail sales in Atlantic Canada were 2.5% higher in the second quarter of 2009 than a year earlier, while nationally retail sales fell by 2.3%.

The main factor behind a smaller impact on consumers in Atlantic Canada is that job and income losses have been more muted in the region. According to Statistics Canada's Labour Force Survey, average employment in Atlantic Canada in the first half of 2009 was only 0.6% lower than a year earlier, compared with a 1.4% decline nationally. With fewer full-time job losses and stronger wage growth in the Atlantic region, labour income in the Atlantic provinces grew by 2.7% in the first half of year compared with a gain of only 0.6% in Canada.

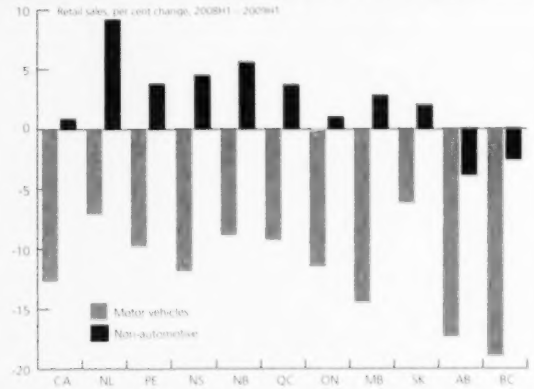
The recession has still had a sizeable impact on consumer spending in the Atlantic region, especially on sales of new motor vehicles. The value of motor vehicle sales in the Atlantic provinces dropped by 5% in the last quarter of 2008 from a year earlier as consumer confidence fell sharply and credit conditions tightened. By the first quarter of 2009, the value of motor vehicle sales was down more than 14% in Atlantic Canada (the steepest year-over-year decline since the early 1990s), followed by a 6% year-over-year decline in the second quarter. Nationally the drop in car sales has been steeper than in the Atlantic region and started two quarters earlier. Car sales in the second half of 2009 will get some boost from corporate "cash for clunkers" incentives that supplement the Canadian government's Retire Your Ride program.

Looking to the recovery, consumer spending in Canada is expected to pick up during the remainder of 2009 and into 2010. Yet many forecasters expect real consumer expenditure to grow by only 2% in real terms next year. Aside from this year's decline, this would be the weakest year for Canadian consumer spending growth since the recession of the early 1990s and half the 3.9% average annual pace experienced during the last four years. In Atlantic Canada, sluggish population and job growth are likely to weigh on consumer spending growth over the next several years. Atlantic consumers are also at risk from rising interest rates as consumer debt is now much higher than in the past.

Recession Spending

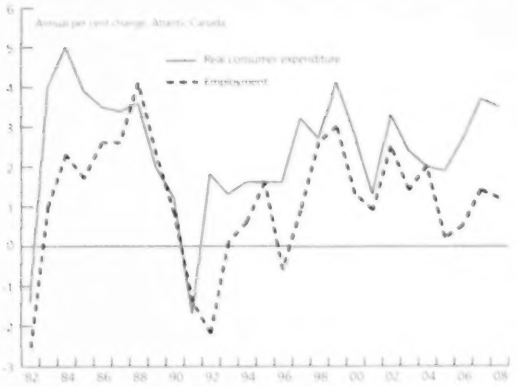
Newfoundland and Labrador stands out as the only province where retail sales were higher this year than in 2008. Car sales have fallen, down 7% in the first half of the year but non-automotive related sales in the province were up 9.2% in the first half of the year. Nova Scotia has taken the biggest hit in the region in terms of motor vehicle sales, which were down 12% in the first half of 2009. However, Prince Edward Island had the weakest growth in non-automotive spending at 3.8% in the first six months of the year.

Car Sales Plummet in the Recession



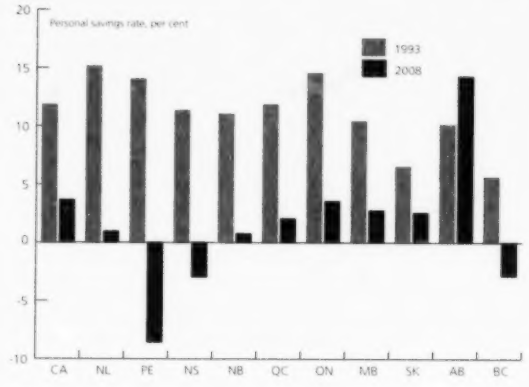
Source: Statistics Canada

Atlantic Job Growth Key to Sustaining Consumer Spending



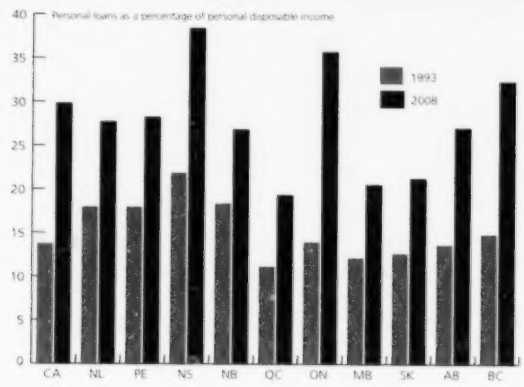
Source: Statistics Canada

Savings Rates Have Plunged in Atlantic Canada



Source: Statistics Canada

Consumer Debt Has Increased



Source: Bank of Canada, Statistics Canada, APEC.

Aside from the drop in automotive sales, spending on other big ticket items in the Atlantic region has also been affected. For example, spending at furniture stores has slowed from a 14% annual growth rate immediately prior to last fall's economic and financial crisis, to growth of only 1% by the second quarter of 2009. Sales of home furnishings (such as floor coverings) actually fell by 9.5% in the first half of 2009, while spending on discretionary items such as clothing accessories, footwear and jewellery also declined. On the plus side, sales at home centres were up 8% in the second quarter of 2009. This sector will benefit from spending triggered by the federal government's temporary Home Renovation Tax Credit.

Saving Less, Borrowing More

Real consumer spending in Atlantic Canada is highly dependent on growth in employment. Atlantic Canada's weak population and employment growth compared with Canada is a big factor behind the region's slower growth in consumer spending over the last decade. Moreover, consumer spending in recent years has been boosted by rising wealth, higher borrowing, low interest rates and a decline in savings. These factors are likely to be less supportive of spending growth in the Atlantic region over the next few years.

Atlantic consumers have benefited from rising wealth, most notably in terms of stock market investments and real estate. The S&P/TSX Composite Index almost doubled in value between 2002 and 2007. However, the Index fell 38% over the second half of 2008 and, despite a recovery this year, the S&P/TSX Index at the beginning of October 2009 was still 25% below the May 2008 peak. While house prices in Atlantic Canada have also risen in recent years and have continued to advance during the last year, mortgage debt has increased as well over the last decade.

Growth in consumer spending has been facilitated by a considerable increase in borrowing. Personal loans as a share of disposable (i.e. after-tax) income has risen in Atlantic Canada from 20% in 1993 to 32% in 2008. New Brunswick consumers are the least indebted in the region at 27% of disposable income, but in Nova Scotia this ratio exceeds 38%, well above the national rate of 30%. Banks have tightened lending conditions over the last year and this may restrain future growth in consumer credit. Non-residential household credit in Canada has slowed from an annual growth rate of over 10% in 2007 to about 7% in June 2009, but still supported by historically low interest rates. With their higher debt levels, Nova Scotian consumers are particularly exposed to rising interest rates over the next few years as the economy recovers.

Atlantic households are saving less, with the savings rate declining from 12% in 1993 to -1% in 2008, which means that Atlantic consumers are now spending more than their disposable income. The savings rate in Atlantic Canada has continued to fall since 2002, even though it has stabilized nationally. In Canada, the savings rate rose to 3.7% in 2008 and one forecaster predicts it will average 6-7% over the next five years as consumers rebuild their wealth and retirement savings, and rely more on savings rather than borrowing or capital gains.* An increase in the savings rate will dampen the rebound in consumer spending and contribute to a more subdued economic recovery, both regionally and nationally.

* TD Bank Financial Group, Shift to Thrift, 20 May 2009.

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